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Letter dated 5 April 2000 from the Permanent Representatives of Ecuador and the Netherlands to the United Nations addressed to the Secretary-General

We have the honour to transmit to you the Conclusions of the Chair of the International Experts Meeting on Sustainability Assessment of Trade Liberalization, a conference organized by the World Wide Fund for Nature in cooperation with the Governments of Ecuador and the Netherlands (see enclosure). The Conference took place in Quito, Ecuador, from 6 to 8 March 2000.

The Governments of Ecuador and the Netherlands would like to present Conclusions of the Chair to the Commission on Sustainable Development at its eighth session which will convene from 24 April to 5 May 2000. We would therefore be grateful if you could have the present letter and its enclosure document made available to the participants at the eighth session of the Commission.

(*Signed*) Mario **Alemán**
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Enclosure

International Experts Meeting on Sustainability Assessment of Trade Liberalization

6-8 March 2000, Quito, Ecuador

Acknowledgements

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CONCLUSIONS OF THE CHAIR

1. Introduction

An International Experts Meeting on Sustainability Assessment of Trade Liberalisation was held from 6 to 8 March 2000 in Quito, Ecuador. The meeting was co-organised by the World Wide Fund for Nature (WWF) and Fundación Futuro Latinoamericano (FFLA).

The meeting was held as part of the response to decisions made in 1994 at the Commission on Sustainable Development (CSD) on the importance of developing a framework to facilitate the assessment of the environmental impacts of trade policies within the overall framework of promoting sustainable development. Given that trade, environment and sustainable development are being discussed at CSD-8 in the context of Agenda 21 and the Programme for the Further Implementation for Agenda 21, it was felt that this meeting could provide a valuable input to the CSD deliberations.

The objective of the meeting was to explore and discuss the purpose, characteristics, policy relevance and effectiveness of sustainability assessments (SAs). It was structured as a three-day meeting divided into plenary sessions with formal presentations and sessions in working groups.

The document - Background Material Prepared for the International Experts Meeting on Sustainability Assessments of Trade Liberalisation, 6-8 March 2000, Quito, Ecuador - produced by WWF and FFLA, was provided to participants beforehand.

On Monday 6 March, participants were divided into six working groups to consider general approaches to methodologies. The discussions in these groups have been summarised in annex 1. On Tuesday, 7 March, the working groups focused on economic, environmental and social perspectives on sustainability assessments. Annex 2 provides a synthesis, and suggests constructive evolution in the discussions.

Close to 100 individuals from 30 countries attended the meeting including Governments, international organisations, NGOs and academia, and from the trade, environment and development communities (annexes 3 and 4).

The meeting was a unique opportunity for an open exchange of views and experiences among such a wide range of stakeholders. The discussions addressed the role and utility of SAs, concerns and potential obstacles (notably the need for trust among countries, purpose and value added of SAs compared with Environmental Impact Statements - see annex 1), as well as practicable steps that would facilitate the application of SAs - see annex 2.

This summary and its annexes do not constitute a consensus document and may not reflect the views and positions of all participating Governments and organisations. However, the discussions produced the following results in terms of areas of emerging common interest and need for further exploration.

2. Results

2.1. Main General Conclusions

2.1.1 There was a general recognition that SAs can be important tools to improve the quality of political decision making by enhancing the understanding of the complex relationships between trade and sustainable development.

2.1.2 It was concluded that SAs should not be limited to trade liberalisation but extended more broadly to trade policy.

2.1.3 It was also agreed that the development of SAs are still at an early stage and that there is a need to further elaborate the definition, purpose and scope of such assessments. The meeting stressed the need for international co-operation in this field.

2.1.4 In addition, this elaboration requires the building of trust, which critically depends upon SAs not being used as a prerequisite for countries to participate in trade liberalisation and countries being free to choose their own (tailor-made) approach to assessments.

2.2. Purpose of Sustainability Assessment

2.2.1 SAs should be designed so as to ensure their policy relevance and their ability to inform policy-making. The purposes of SA can include, but are not necessarily limited to, the following:
- To identify critical environmental, social or economic impacts of trade policy (including improved

market access or conversely impediments to market access);
- To incorporate environmental and social considerations into trade-related political decision-making, *inter alia*, by identifying and possibly quantifying trade-offs between economic, social and environmental objectives;
- To inform decision makers on the various consequences of joining trade agreements, and help develop national negotiating positions;
- To contribute, at the national level, to the identification of appropriate domestic (flanking) policies that mitigate potential negative impacts or enhance positive ones, such as ensuring additional availability of finance, technology transfer and/or considering other avenues that can facilitate the achievement of sustainable development, like income policy, education, emancipation, capacity-building;
- To facilitate co-ordinated decision-making, for example, between trade, environment, fiscal, economic and development officials at the national level;
- To identify how trade and economic growth can promote sustainable development.

2.2.2 It is up to each country, before undertaking a SA, to clearly specify the purpose of such an assessment. The purpose and availability of means determine the definition and scope of SA.

2.3. Definition and Scope

2.3.1 Individual countries are responsible for defining and interpreting sustainability assessment based on their own context. Priorities and specific aspects to be included depend on the circumstances of each country, including their differing degrees of development and the issues under assessment. Therefore, countries may choose to limit or broaden the scope of a SA based on the need to effectively manage the exercise, on capacity and/or on national political priorities.

2.3.2 However, since many (trade-related and non-related) factors may reinforce each other, SAs must include the broadest range of relevant economic (including fiscal), environmental and social considerations that is achievable, without loosing the required depth for identifying the fate of vulnerable groups in society.

2.3.3 In cases of regional trade or environmental interdependence, the national analyses may be merged to the regional level, as appropriate.

2.4. Building on Experiences and Existing Tools

In several areas of analysis that may contribute to SAs, much experience has been gained and important progress is being made. These areas include environmental impact assessments (EIAs), cost-benefit analysis (CBA), economic and bio-economic models, sensitivity analysis, including scenario-building, survey techniques and case study methodologies. In addition, there are a number of approaches in developing countries related to assessment, such as the Extended Domestic Resource Cost Approach (ERDC), that can contribute to the further development of SAs. It is essential to build on these developments, as well as on their application, and share the methodologies and experiences in applying them among countries.

2.5. Stakeholders Involvement

2.5.1 The involvement of stakeholders, including Governments, NGOs, the private sector, academia and affected groups, is important in the design and application of SAs. Much of the relevant quantitative and qualitative information as well as skills to undertake assessments are in the hands of business, civil society and academia.

2.5.2 The early involvement of stakeholders in SAs will contribute to their ownership of the process and will ensure that the conclusions of the assessment are as well informed as possible. In addition, the inclusion of stakeholders and their participation in assessments will enhance the applicability and effectiveness of policy measures, and contribute to capacity-building.

2.6. Capacity-building

Sustainability assessments cover a wide range of issues and can be very complex. Therefore, a high level of capacity is required to develop, implement and interpret SAs. The need to build or strengthen capacity was emphasised. International organisations or other forms of international cooperation might appropriately contribute to building such capacity at the national level.

2.7. Areas for Further Work

Several areas for further work on SAs were identified by the participants. They include: Continuing the International Dialogue? To build trust in the development and use of SAs through further discussion and dialogue, research, case studies, information and experience sharing and in particular, the inclusion of all interested countries and organisations in assessment processes;

- To further explore how SAs, as one of many analytical tools, can best offer opportunities to promote sustainable development, particularly in developing countries.

International Information Exchange:
- To develop inventories / libraries that are easily accessible by all interested parties, e.g., by electronic means, of:
- Approaches to quantitative and qualitative assessments, which can include check-lists of key elements to be considered and procedural guidelines;
- Applicable methodologies and their relative strengths and weaknesses, highlighting which methodologies are particularly suitable for what policy questions;
- Important (case) studies that can serve as reference material;
- Definitions and time-series of indicators for economic, social and environmental development, in particular those that help provide information on possible trade-offs between these aspects;
- Relevant resource materials such as data(bases) an forecasts of variables that determine important underlying assumptions, in particular regarding various aspects/factors of world trade and economic, social and environmental conditions.

Development of Assessment Methodologies:
- To build upon the information and key findings of inventories of approaches to assessment as well as relevant case studies;
- To strengthen the social dimension of SAs by developing appropriate methodologies to assess social impacts in their own right, in particular with respect to people and communities living and working at subsistence levels. This includes the further development of methodologies that allow for sufficient sectoral as well as spatial (local) details;
- To further examine the potential utility of SAs with respect to addressing transboundary effects;
- To develop, where relevant and on a voluntary basis, regional and/or international cooperation in undertaking assessments.

Stakeholders Involvement:
- To promote better participation of the private business sector;
- To identify key entities and institutions that are working on assessment issues worldwide with a view to establishing networks;
- To encourage collaborative work between developed and developing countries on SAs.

Annex 1

Report from Breakout Groups # 1

On the first day of the meeting, the participants broke into six groups to discuss general issues related to sustainability assessment and methodologies. Even though some areas of emerging consensus were identified, the following are not necessarily points of agreement but a recollection of the main ideas discussed.

1. Purpose of Sustainability Assessment

1.1 There is a consensus on the need for improved understanding of the links between trade and sustainable development. However, there are still doubts about the role and utility of sustainability assessments (SA).

1.2 A fundamental question addressed by all groups related to the purposes of SA and the need to spell them out clearly. Some participants were sceptical of the value of sustainability assessments; others were not convinced that the need for sustainability assessment has been fully established, particularly in developing countries, and others supported the development of SA at the national level.

1.3 Several participants raised the question of the value of going beyond environmental impact assessments (EIA) given that many developing countries are just beginning to assimilate EIA processes. In addition, two groups made the point that if a SA cannot be fully comprehensive, it is preferable to concentrate on further developing existing approaches such as EIA. By bringing into the analysis the different aspects of the particular context in which the EIA is conducted, it was said, an EIA would more or less naturally evolve into a full-fledged SA.

1.4 While recognising that SA are complex, some suggested that this should not prevent exploring the concept and practice of SA and its potential as a tool for management.

2. Definition of Sustainability Assessment

2.1 Recognising that SA is a new concept to many, it was pointed out that before discussing the necessity of such assessments, one needs to define what an SA is and what "sustainability" means in this context. In doing so, it was said, the definitions of environmental impact assessments (EIAs) and strategic environmental assessments (SEA) should also be considered. Some emphasised that language could be a problem exacerbating differences and disagreements.

2.2 Several groups emphasised that each country should define and interpret SAs within its own context: development and sustainable development are relative and do not mean the same to everyone.

2.3 There was disagreement as to whether SA could really encompass all three components of sustainable development, i.e., economic, social and environmental impacts. One group suggested that trade-offs should be made explicit in the application of SA. Some participants felt that it would be useful to have some guiding principles, including common denominators, setting out definitional parameters on SA. Others emphasised the voluntary nature of this tool.

2.4 The view was expressed that clear definitions are not necessary, as the definition of SA should be adapted to the purpose and the specific exercise conducted, which will vary from country to country. However, one group attempted to produce a definition of SA as follows: the purpose is to make sure that countries do not leave things out of the decision-making process and fill in the gaps where typical market analysis fails.

3. Trust

3.1 The issue of trust was raised in all the groups. One group suggested that there exists a large credibility gap and that the debate might still be premature. Others noted that it is necessary to build trust around the development of SA to address, among other things, the concern that SAs may be used as barriers to trade. It was observed that classifying countries' trading behaviour using SA criteria could influence market access and possibly access to credit by developing countries.

3.2 One group suggested the following elements to help build trust:
- Adopt a process that ensures that all countries are equally represented in the discussion;
- Adopt a process for developing SA that is very transparent;
- Clarify the definition of SA;
- Develop SA through a step-by-step process that takes into account different conditions in countries;
- Adopt an ex post approach (e.g., assessment of the Uruguay Round Agreements).

3.3 Another group noted that one way to build trust would be to undertake assessments of the absence of trade liberalisation in developed countries. It was also said that trust is important to build capacity.

4. Level of Assessment

National Level

4.1 There seems to be broad consensus among the groups that SA should be undertaken at the national level as a tool for developing domestic policies, and some suggested as a tool to encourage coordination among different ministries. SA could also be useful to develop national negotiating positions for future trade negotiations, and to provide transparency in the analysis and development of those positions.

International Level

4.2 The international level gave rise to a wider divergence of views. In some groups, there was little support for international processes of assessment. One group suggested that a general common framework for SA could be developed, but the feasibility and desirability of this were questioned, especially from the perspective of developing countries.

4.3 Another group suggested that international processes could be used for sharing information about SA. Other participants noted that in order to consider trade issues, one has to go beyond the national level. There may also be value in undertaking SAs at the global level to guide global environmental governance particularly regarding transboundary and global pollution concerns. Others extended this value to bridging the gap between rich and poor within and between countries. However, the question was raised as to what the methodology would be, who would develop it, and who would implement it to ensure trust and objectivity.

4.4 Other arguments in support of international approaches to assessment included:
- Sustainable development can be understood as the "space" where the concerns of developed and developing countries meet and are reconciled or negotiated; SA could be a useful tool to inform the construction of this space (sustainable development) and find the appropriate points of reconciliation of the different concerns;
- The notion of sustainable development addresses issues of concern to the people, such as poverty, and SA could be used to indicated how to address these problems; the demand for SA could therefore be considered to come from "bottom up";
- SA can improve the transparency of international negotiating processes and generate useful information.

4.5 While not endorsing a multilateral approach, one group suggested that SA might be useful at the regional/subregional level as part of the process of working together and building trust among like-minded countries. One group discussed the possibility of developing a framework

from which national Governments could select the tools needed for national assessments.

4.6 Participants discussed the question of linking SA to multilateral trade talks. Many participants felt that SA should be delinked from the World Trade Organization or any new round of trade negotiaitons. Others felt that it was necessary to keep some linkages to trade talks. The content of such SA should be clarified and, above all, multilateral assessments should not take place at the expense of national assessments. It was also said that WTO members who wish to do their own assessment of WTO-led trade liberalization have the right to do so.

5. Participation

5.1 All groups noted that SAs should be conducted with the benefit of broad participation from relevant stakeholders. Some added that this participation should come at an early stage in the design of SA. Others emphasised the need for participation of government officials at the national level. The importance of clarifying who would conduct SA was pointed out.

5.2 It was also mentioned that participation should imply the involvement of developing countries in engineering SA, should they agree to develop such assessment processes.

6. Methodology

6.1 In general there was agreement that there is no single method for conducting assessments. SA methodologies should be adapted to the situation of each country.

6.2 With respect to the scope of SA, several groups mentioned that SAs should be broadened to include issues such as debt relief, changes in macroeconomic policy, technology transfer, governance and institutional setting, poverty, health and education. In this regard, one group noted that a fundamental weakness of SA is that they are developed from the narrow perspective of trade liberalisation focusing, for example, on commodities, and not taking into account constraints on development, institutional weaknesses and structural problems in general. One group noted that since there needs to be a starting point in the assessment process, trade may be that point. In this regard, it was said that if the focus is on trade, an extended EIA might be sufficient.

6.3 Mention was made of the importance of examining the impacts of a broad range of policies (including trade policies) on the objectives of national strategies for sustainable development.

6.4 Longer-term sustainability effects should also be considered. Doubts were raised on what indicators would be used to assess impacts on the three elements of sustainable development. It was said that indicators should be both quantitative and qualitative and that flawed indicators would provide distorted pictures.

6.5 There is a need to develop an inventory of approaches, methodologies, data requirements at national and international levels, and identify gaps in analysis and data, as well as address government and market failures, which contribute to unsustainability.

7. Capacity-building

7.1 The need to build capacity in developing countries was emphasised. It was noted, however, that human capital is often available in these countries but financial resources to undertake the necessary research are scarce. One group raised the question of how to build capacity in an area that developing countries have not worked on, and the concern was raised about efforts to build capacity to implement a concept in whose elaboration they did not participate.

7.2 One group suggested that the role of international organisations in assessments might be to compile national experiences, provide access to technology, information and financial resources, and enhance human capital. Another group noted the importance of the need for capacity-building at the national level, in terms of implementing a methodology, but, more importantly, for managing the links between trade and environment.

8. Policy Relevance

8.1 Two groups identified the need for monitoring, follow up and evaluation of the outputs of SAs. At least with regard to national level assessments, one group suggested that SA must go beyond documents that provide theoretical recommendations and into providing a practical strategy or action plan. The group suggested selecting appropriate champions or key supporters, the coordination of various agencies and sectors, effective mechanisms for information-sharing and for communication of the SA results.

Annex 2

Report from Breakout Groups # 2

On the second day of the meeting, participants were asked to look at economic, social and environmental processes that are important to consider in sustainability assessments. Six groups (two on each type of process) were formed. Even though some areas of merging consensus were identified, the following are not

necessarily points of agreement but a recollection of the main ideas discussed.

1. Economic Perspective

General Considerations

1.1 Some participants emphasised the issue of trust, saying that there seemed to be a certain perception by developing countries that there is a hidden agenda behind SA methodology. This distrust can be overcome if SA is thought of as a predominantly analytical tool, as opposed to a potentially standard setting one.

1.2 No value judgement can be made on the merits of SA since it has not been sufficiently developed yet.

1.3 SA methodologies need to be further improved, with the participation of developing countries and the assistance of international organisations, to incorporate priorities specific to developing countries, particularly on the social dimension. There are many possible definitions for the term sustainability in this context. Therefore, it has to be flexible and leave enough degrees of freedom according to the needs of its users.

1.4 No scope of application of SA should be predetermined. It could be local, national, or even regional.

1.5 The implementation of this tool should be undertaken on a voluntary basis.

Specific Considerations

1.6 Pluralistic approach - each country has the right to choose the economic approach most suitable to its economic, social and environmental conditions.

1.7 Level - Assessments generally will be performed for the national level, but within a framework that permits the analysis of spatial variation relevant to local economic, environmental and social effects, and that uses microlevel experiences. In cases of regional trade or environmental interdependence, the national analyses can be merged to the regional level.
Global economic factors, such as world price shifts, that affect the national and regional analyses should be incorporated. Incremental/marginal analyses are preferred.

1.8 Linkages - Economic analyses should include interdependencies over time and space and other linked components. SA is not a three-legged stool, but should portray a continuum of trade-offs.

1.9 Baseline - Specify initial economic, environmental and social conditions from which to estimate the effects of trade liberalisation, including regulatory institutions and distributional context.

1.10 Trade liberalisation policy versus broader macro-policy analyses - A focus on the effects of trade liberalisation helps to keep the analysis focused and manageable. Where other macro-policies are directly linked with trade liberalisation as a package of policy change, the analysis needs to capture those cause-effect feedback linkages.

1.11 Policy interface - account for domestic policy and global economic governance as appropriate.

1.12 End variables - Define the economic variables that are of interest as economic measures, e.g., income, employment, poverty changes, output and factor, labour changes, and that drive environmental and social processes.

1.13 Industrial organisation - The nature of competitiveness of the domestic and trade markets, e.g., oligopoly, should be specified to condition the estimates of the economic end variables.

1.14 Dynamic framework and analysis - The assessment should be framed dynamically to capture intertemporal feedback effects, such as for economic-environment linkages, and for intergenerational economic and social effects. Where data and analytical methods permit, the analysis should incorporate the dynamic effects.

1.15 Valuation - The economic variables should be assigned non-distorted market values. There was disagreement about assigning economic values to non-market environmental variables, such as water quality changes.

1.16 Policy response - The analysis should be cast and conducted in such a manner that it will give information relevant to policy decisions.

1.17 Ex ante versus ex post - The SA should where possible be conducted to inform the trade and other policy processes. Ex post analyses can be useful, however, in understanding the economic, environmental and social processes at work to inform future SA.

1.18 Uncertainty - All economic, environmental and social processes and effects are subject to uncertainty. Point estimates of variables are rarely desirable in describing the potential effects. Where processes are subject to significant uncertainty, sensitivity analyses should be incorporated into the SA.

2. Social Perspective

General considerations

2.1 There was general consensus on the importance of assessing the social impacts of trade liberalisation. Any SA must have a substantial social impact component. The potential for the greatest variability between countries lies here. Moreover, the threats to peace and security that can result from failure to address social impacts make them an important area for assessment. Social impacts should be considered in their own right, not simply in relation to other areas such as environmental impacts.

2.2 Perceptions on which social impacts are the most important to address, and corresponding policy priorities, vary greatly between countries, and a differentiated, country-by-country approach should be taken.

2.3 A general difficulty lies in the need to connect social impacts with trade liberalisation. Identifying "transmission chains" between trade liberalisation and social impacts is one way to make the links. Similarly, a socially defined notion of "risk" in relation to adjustment to trade liberalisation is a concept that can help to isolate trade-related impacts.

Impact Parameters

2.4 Poverty - Poverty needs to be addressed as an overriding parameter;

2.5 Employment effects.